NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS
NATIONAL COUNCIL ON TEACHER RETIREMENT

July 14, 2006

The Hon. Charles E. Grassley, Chairman
United States Senate Committee on Finance
135 Hart Senate Office Building
Washington, DC 20510

The Hon. Max Baucus, Ranking Member
United States Senate Committee on Finance
511 Hart Senate Office Building
Washington, DC 20510

Dear Senators Grassley and Baucus:

On behalf of the National Association of State Retirement Administrators (NASRA) and the National Council on Teacher Retirement (NCTR), we are writing in reference to your letter dated July 10, 2006, to the Government Accountability Office (GAO) requesting a study of the funding status of public pension plans. The membership of NASRA and NCTR collectively administers State, territorial, local, university and statewide public pension systems that hold over $2.1 trillion in trust for over 18 million public employees, retirees and their beneficiaries.

We appreciate your interest in the general financial health of State and local government defined benefit (DB) plans. We are concerned, however, about some of the statements made in the letter to the GAO, particularly those that could be misleading or are factually inaccurate regarding the governance, protections and financial condition of public employee retirement systems. It is extremely important that an accurate point of departure is used and proper metrics are employed. We welcome the opportunity to work closely with you and the GAO as you examine the areas outlined in your letter, and hope the factual points noted below and future discussions will better ensure a balanced study.

For example, when discussing pensions in the *private* sector, the letter may be correct in stating that "retirees and workers who 'play by the rules' all their careers now find themselves with far lower actual or future retirement income on which they had counted." However, that statement definitely does not apply to participants (both active employees and retirees) in the public pension plans represented by our two associations. *Public DB pension plan promises made are promises kept.* Accordingly, we do not understand the basis for the letter's suggestion that public employees need "help" in "avoid[ing] the benefit losses and reduced accruals experienced by their private sector counterparts." We know of no participant in our members' plans who has or may ever lose any part of his or her existing retirement benefit.

Indeed, unlike the private sector in which only the participant's accrued benefit to date is protected, in the State and local DB plan world the *benefit formula itself* is typically protected from such cutbacks by state constitutions, statutes, or case law that prohibit the elimination or diminution of a retirement benefit once it is granted. Thus, State and local DB plans typically guarantee not only the participant's accrued level of benefit but also protect future benefit accruals from being cut back. The implication that lack of coverage by the Pension Benefit Guaranty Corporation (PBGC) renders government employees at greater risk is a misnomer, and only serves to unduly alarm the participants in our members' systems. Even though public plans may not have the PBGC as a "back-up source for guaranteed benefit payments," the full faith and credit of State and local governments has provided insurance far greater than what is provided by the PBGC. In fact, public employees may actually find increased comfort in knowing that there is no "escape hatch" from pension obligations once they are promised in the public sector. It is a misconception that PBGC coverage will provide any added value to the benefit protections already in place for State and local government employees.

We also wish to take exception to the statement in the letter to GAO that "many" public sector DB plans are "even more poorly funded" than their private sector counterparts, and the implication that an untenable burden will fall on taxpayers and public employees. As a group, public pension plans have funded 86 percent of their liabilities, a figure that is expected to begin rising in the near future as investment gains since March 2003 are more fully incorporated into funding calculations. This figure is also reflective of the funding levels of plans covering the substantial majority of public pension participants. Unlike private sector plans that must rely on uneven employer contributions, State and local DB plans receive a steady stream of both employer and employee contributions that typically is mandated by statute. In addition, State and local government DB plans are long-term investors, whose portfolios are professionally-managed and designed to withstand short-term market fluctuations while still providing optimal growth potential. When placed in context, required contributions to public pension plans continue to be well within State and local governments' budgetary means, and even represent historically low amounts as a percentage of total state and local government spending and payroll.

Finally, we are concerned with the letter's co-mingling of pension benefit funding with the issue of health benefits and the "funded status" of retiree health plans. We agree that adequate health care is essential to overall retirement security, and that health benefit commitments are placing significant and increasing pressure on government resources. However, meeting the fiscal and other challenges in providing healthcare benefits must not be confused with the funding of DB retirement plans. Retiree health benefits are handled separately and independently and often are not administered or funded as part of a government's retirement system.

NASRA and NCTR appreciate the strong record of support that each of you have maintained for State and local government employee retirement programs. We share your interest in keeping commitments to providing a secure retirement for American workers, particularly those who spend a career delivering vital services to the public and whose retirement security the members of our associations guarantee. We welcome the opportunity to work closely with you and the GAO and hope future discussions and consultation will provide an objective and factually accurate study.

To this end, we have attached comments recently sent to the President of the Federal Reserve Board of Chicago. These comments are intended to constructively promote sound public policy regarding issues with far-reaching ramifications affecting millions of working and retired Americans.

We look forward to working with the GAO and are confident that when its study is complete, you will be reassured that the status of public pension plans and their funding condition is sound. Please feel free to call upon either one of us (202-624-1417/jeannine@nasra.org or 703-684-5236/lsnell@nctr.org). We would be happy to assist you at any time.

Sincerely,

Jeannine Markoe Raymond
Director of Federal Relations
National Association of State
Retirement Administrators

Leigh Snell
Director of Governmental Relations
National Council on Teacher Retirement

Attachment

cc: The Honorable David M. Walker
Comptroller General of the United States
U. S. Government Accountability Office

NASRA and NCTR Retirement System Directors

July 12, 2006 [Recieved via e-mail.]

Re: Request to study the funding status of public pension plans

The Honorable David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Comptroller General Walker:

On behalf of 500 public sector pension funds which collectively manage $2.75 trillion for the benefit of approximately 20 million public sector workers and retirees, I write to clarify some misconceptions and offer the services and expertise of the National Conference on Public Employee Retirement Systems (NCPERS) and our member funds.

We understand that Chairman Chuck Grassley and Ranking Member Max Baucus of the Senate Finance Committee asked the Government Accountability Office to study the funding status of public pension plans. While we appreciate Senators' interest in the well being of public plans, we feel their concerns rise from unfamiliarity with our plans.

First, public plans are largely regulated at the state level and are not subject to ERISA, nor are they covered by PBGC's pension insurance programs. Public pension plans are governed by state law, and it is the state legislatures that set rules under which they operate. Moreover, public plans are backed by the full faith and credit of the state in which they operate and thus unlikely to default on their obligations.

Second, public sector pension funds are well managed and well funded, and are effective in providing for public employees' retirement security. Public plans provide an average pension benefit of $18,500 to approximately 6 million retirees. Taxpayers contribute less than 26 cents for every dollar paid out in pension benefits. The remainder is funded by investment income and employee contributions. In fact, most state and local workers are required to contribute regularly to their public pension benefit – unlike most corporate pension plans.

We would be happy to provide any assistance you may require as you begin to research the public pension system. Please feel free to contact me at 202-624-1456 or at hank@ncpers.org.

Sincerely,

Hank Kim, Esq.
Executive Director & Counsel

-----Original Message-----
From: The NASRA Newsclips List [mailto:NASRA_NEWSCLIPS@LISTSERV.AMRMS.COM]**On Behalf Of** Jeannine Markoe Raymond
Sent: Tuesday, July 11, 2006 9:09 AM
To: NASRA_NEWSCLIPS@LISTSERV.AMRMS.COM
Subject: Senators Grassley, Baucus Send Letter Asking GAO to Review Public Pension Plan Funding

The Bureau of National Affairs reported yesterday that Senator Chuck Grassley (R-IA), chairman of the Committee on Finance, and Senator Max Baucus (D-MT), ranking member asked the Government Accountability Office to study the funding status of public pension plans, "citing concern that many such plans are poorly funded and have no back-up source for guaranteed benefit payments, as private pension plans have," according to the BNA.

The text of the senators' request letter follows.

July 10, 2006

The Honorable David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Walker:

We are currently conferencing pension legislation that would revise the funding of private sector defined benefit plans. The weak funding rules that currently apply have resulted in plans terminating with billions of dollars of unfunded liabilities. These terminations have pushed the Pension Benefit Guaranty Corporation's deficit to over $23 billion and have led to major losses in retirement income for workers.

Retirees and workers who "played by the rules" all their careers now find themselves with far lower actual or future retirement income than on which they had counted. Many of the same forces that impacted private sector defined benefit plans impact public sector defined benefit plans. Because of different rules, many of the public sector plans are even more poorly funded than their private sector equivalents. There is no PBGC to back up these plans; the burden would fall directly on state and local taxpayers and on our Nation's teachers, police and firefighters.

In addition, changes to financial reporting requirements for state and local governments will mean new recognition of retiree health benefit commitments. Such health benefits are also an important element of public employee retirement resources; governments may face the choice of significant tax increases or benefit reductions.

To help us better understand the fiscal and other challenges facing state and local retirement plans and to help public employees avoid the benefit losses and reduced accruals experienced by their private sector counterparts, we would ask GAO to explore a variety of issues regarding state and local DB pensions and the accompanying retiree health benefits. These include:

--What is the general financial health of state and local government DB plans and how has it changed over the last decade?

--How widespread is the provision of retiree health benefits by state and local government employers, in terms of cost and employee coverage, and what is the funded status of these plans? How has this changed in the last decade?

--To what extent do state and local government employers and employees benefit from the federal tax expenditure for defined benefit pension plans?

--To what extent will recent changes in applicable accounting standards affect the funding and transparency of state and local public employer plans as well as their financing of retiree health benefits?

--What are the implications of these trends for state and local government employee retirement security and retirement security generally?

Sincerely yours,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member